

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: OFFICE OF CONSUMER ADVOCATE, Petitioner, v. MIDAMERICAN ENERGY COMPANY, Respondent;	DOCKET NO. FCU-04-17
---	----------------------

ORDER APPROVING SETTLEMENT

(Issued June 9, 2004)

On April 12, 2004, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed with the Utilities Board (Board) a complaint regarding MidAmerican Energy Company's (MidAmerican) calculation of the allowance for funds used during construction (AFUDC). Consumer Advocate alleged that MidAmerican applied an excessive and unreasonable common equity rate for use in AFUDC for electric and gas plant.

Consumer Advocate and MidAmerican filed a joint motion on April 28, 2004, to hold in abeyance the time for MidAmerican to file an answer to the complaint because the parties were engaged in settlement negotiations. The Board granted the motion by order issued April 29, 2004. MidAmerican and Consumer Advocate

filed a joint settlement agreement on May 7, 2004. The proposed settlement would resolve all outstanding issues with respect to the AFUDC complaint. There were no objections to the settlement and no other parties to this proceeding.

According to Consumer Advocate's complaint, MidAmerican used the last three years of earnings under its current revenue sharing arrangement with Iowa retail customers, 13.61 percent, for calculating both its electric and gas AFUDC rate in 2004. Consumer Advocate did not recommend a specific cost rate that should be used, but pointed out that in recent litigated cases the return on equity was substantially lower than 13.61 percent.

The proposed settlement contains specific AFUDC rates that are to be used from and after May 1, 2004. These rates are as follows: 1) 12.23 percent on Greater Des Moines Energy Center construction, 2) 12.29 percent on Council Bluffs Energy Center-Unit 4 construction, 3) 12.2 percent on the wind project construction, 4) the average rate actually earned on electric operations during the preceding three years after revenue sharing with electric customers for all other electric construction, and 5) 10.75 percent until the earlier of the conclusion of MidAmerican's next gas rate case where a common equity cost rate is granted by the Board or January 1, 2006, at which time the equity component of the AFUDC rate shall be the average rate actually earned on natural gas operations during the preceding three years for all natural gas construction.

The equity figures for the specific projects referred to in the settlement reflect the Board's prior orders issued in ratemaking principles proceedings for those plants.

Other electric construction uses a three-year average. The gas plant AFUDC return that applies until the next rate case, or January 1, 2006, is the return on equity contained in a settlement approved by the Board in Docket No. RPU-02-6.

The Board in 199 IAC 16.2 and 16.3 has adopted the Federal Energy Regulatory Commission's (FERC) Uniform Systems of Accounts for determining AFUDC rates. The FERC rules provide, in part, that "[t]he cost rate for common equity shall be the rate granted common equity in the last proceeding before the ratemaking body having primary rate jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used." 18 CFR Chapter 1, Parts 101 and 201.

Because of prior settlements, the Board has not recently set a return on common equity for MidAmerican's electric operations. MidAmerican's use of a three-year average for determining AFUDC rates for electric operations may have been an unintended consequence of these settlements. For gas operations, it appears MidAmerican may not have been following the FERC rule because a return was recently set for gas operations. However, AFUDC for gas plant is small compared to AFUDC for electric plant with little impact on MidAmerican's rate base for gas operations. The rates contained in the settlement reflect both the results of recent ratemaking principles proceedings and rate proceedings. By providing that the new rates apply on a going-forward basis from and after May 1, 2004, the proposed settlement avoids litigation of potential issues regarding such things as retroactive ratemaking.

The Board will approve the proposed settlement. The settlement is reasonable in light of the whole record, consistent with law, and in the public interest. 199 IAC 7.2(11). The use of the rates contained in the settlement will provide future benefits to ratepayers while at the same time providing MidAmerican an adequate return on its investment during the construction period.

IT IS THEREFORE ORDERED:

The "Joint Motion and Settlement Agreement" filed by the Consumer Advocate Division of the Department of Justice and MidAmerican Energy Company on May 7, 2004, is granted.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 9th day of June, 2004.